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OPEN MEETING COVER SHEET

MEMORANDUM AND PROPOSAL FOR ADOPTION

MEETING DATE:	December 2, 2021
DATE DELIVERED:	December 1, 2021
AGENDA ITEM NO.:	19
CAPTION:	Project No. 52631 – Review of 25.505
DESCRIPTION:	Memo and Proposal for Adoption

Public Utility Commission of Texas

Memorandum

TO: Chairman Peter Lake
Commissioner Will McAdams
Commissioner Jimmy Glotfelty

FROM: David Smeltzer, Director of Rules and Projects

DATE: December 1, 2021

RE: December 2, 2021 Open Meeting – Agenda Item No. 19
Project No. 52631, Review of 25.505 (Proposal for Adoption)

Please find attached to this memorandum Commission Staff's proposal for adoption in the above-referenced project for consideration at the December 2, 2021 Open Meeting.

Commission Staff's proposed final order would amend 16 Texas Administrative Code (TAC) §25.505, relating to reporting requirements and the scarcity pricing mechanism in the Electric Reliability Council of Texas power region to modify the value of the high system-wide offer cap (HCAP) by lowering it from the current \$9,000 per megawatt-hour (MWh) and \$9,000 per megawatt (MW) per hour to \$5,000 per MWh and \$5,000 per MW per hour.

Comments were filed in this rulemaking project by Austin Energy, Hunt Energy Network, LLC (HEN), the City of Houston (Houston), Intersect Power, East Texas Electric Cooperatives, Inc. (ETEC), Jupiter Power LLC (Jupiter Power), Lower Colorado River Authority (LCRA), NextEra Energy Resources (NextEra), the Office of Public Utility Counsel (OPUC), South Texas Electric Cooperative, Inc. (STEC), Steering Committee of Cities Served by Oncor (OCSC), the Texas Advanced Energy Business Alliance (TAEBA), Texas Competitive Power Advocates (TCPA), Texas Electric Cooperatives, Inc. (TEC), Texas Industrial Energy Consumers (TIEC), Texas Public Power Association (TPPA), the Texas Solar Power Association (TSPA), Vistra Corp. (Vistra). No party requested a hearing.

Commission Staff recommends adoption of the of the final order.

PROJECT NO. 52631

**REVIEW OF THE ERCOT SCARCITY § PUBLIC UTILITY COMMISSION
PRICING MECHANISM §
 § OF TEXAS**

**(STAFF RECOMMENDATION)
PROPOSAL FOR ADOPTION FOR AMENDMENTS TO 16 TAC §25.505
AS APPROVED AT THE NOVEMBER 4, 2021 WORK SESSION**

1 The Public Utility Commission of Texas (commission) adopts amendments to 16 Texas
2 Administrative Code (TAC) §25.505, relating to reporting requirements and the scarcity pricing
3 mechanism in the Electric Reliability Council of Texas power region, with changes to the proposed
4 rule as published in the October 22, 2021 issue of the *Texas Register* (46 TexReg 7130). These
5 amendments modify the value of the high system-wide offer cap (HCAP) by lowering it from the
6 current \$9,000 per megawatt-hour (MWh) and \$9,000 per megawatt (MW) per hour to \$5,000 per
7 MWh and \$5,000 per MW per hour. In this adoption, citations to Public Utility Regulatory Act
8 (PURA) 39.160 refer to that section of the Texas Utilities Code added by Senate Bill 3 § 18, 87th
9 Regular Session.

10
11 The commission received comments on the proposed amendment from Austin Energy, Hunt
12 Energy Network, LLC (HEN), the City of Houston (Houston), Intersect Power, East Texas Electric
13 Cooperatives, Inc. (ETEC), Jupiter Power LLC (Jupiter Power), Lower Colorado River Authority
14 (LCRA), NextEra Energy Resources (NextEra), the Office of Public Utility Counsel (OPUC),
15 South Texas Electric Cooperative, Inc. (STEC), Steering Committee of Cities Served by Oncor
16 (OCSC), the Texas Advanced Energy Business Alliance (TAEBA), Texas Competitive Power
17 Advocates (TCPA), Texas Electric Cooperatives, Inc. (TEC), Texas Industrial Energy Consumers

(TIEC), Texas Public Power Association (TPPA), the Texas Solar Power Association (TSPA), Vistra Corp. (Vistra). No party requested a hearing.

Recommendations for the Value of HCAP

Currently, the value of the HCAP is set at \$9,000 per MWh. The proposed amendment would lower this value to \$4,500 per MWh.

HEN, OCSC, OPUC, NextEra, ETEC, and Houston generally supported reducing the value of the HCAP to \$4,500 per MWh. NextEra stated that a \$4,500 per MWh HCAP strikes an adequate balance between creating incentives for generation and load to perform and limiting the financial risk to those purchasing energy at the HCAP. ETEC stated that lowering the value of the HCAP ensures energy prices remain affordable during the upcoming winter season. Houston commented that reducing the HCAP to \$4,500 per MWh would lessen the financial impact to customers during scarcity events.

TEC supported the commission's proposal to lower the HCAP, provided that the change is part of a broader initiative to move away from a crisis-based market model toward supply stability and an environment characterized by regulatory certainty. TEC also emphasized the importance of being mindful of how adjustments to the HCAP and the Value of Lost Load (VOLL) will interact with price-responsive demand. TPPA supported adjusting the HCAP downward to a value between \$4,500 per MWh and \$9,000 per MWh. Jupiter Power could support an HCAP value of \$4,500 per MWh or \$6,000 per MWh, depending on the outcome of the Brattle scenario analysis discussed

1 at the October 21, 2021 Open Meeting and other wholesale market design changes made by the
2 commission.

3
4 TIEC argued that the HCAP should be set at \$6,000 per MWh. TIEC expressed concern that
5 reducing the HCAP to \$4,500 per MWh will dilute incentives for generator performance and
6 demand response in the real-time market. TIEC explained that some of its members provide
7 incremental demand response between \$4,500 and \$9,000 per MWh that will likely be lost if the
8 HCAP is reduced to \$4,500 per MWh. TAEBA echoed the concerns raised by TIEC,
9 recommending that the commission exercise caution when adjusting the HCAP, as too large of a
10 reduction could result in a decline in participation in economic demand response in the ERCOT
11 power region.

12
13 TIEC also contended that the risk of high real-time prices encourages forward hedging by market
14 participants to manage real-time price exposure. Reducing the financial penalty for a resource that
15 fails on a forward obligation in real time, or for a load serving entity that is not properly hedged
16 during emergency conditions, could have adverse impacts on the long-term reliability and health
17 of the ERCOT market. TIEC further stated that the lower the HCAP is set, the more pressure there
18 will be to increase generator revenues from other sources, such as changing the parameters of the
19 Operating Reserve Demand Curve (ORDC) to have a “longer fatter tail.” TIEC argued that such
20 changes could shift additional revenues to intermittent resources and impose an unjustified energy
21 tax for consumers during times of sufficient real-time reserves.

1 STEC recommended that the commission refrain from modifying the HCAP until after the “Brattle
2 Group’s study” is completed. STEC maintained that wholesale changes to the market are best
3 done with a comprehensive, holistic approach with input from stakeholders. STEC stated that
4 constantly modifying the offer caps and ORDC parameters will be detrimental to the market, as it
5 introduces additional regulatory uncertainty. Additionally, STEC expressed concern that any
6 reduction in the HCAP without a fuel cost recovery mechanism could exacerbate energy supply
7 issues during scarcity events when natural gas prices are high. Under the right conditions, STEC
8 continued, it may not be economically feasible for generators to offer capacity into the market as
9 fuel costs would be unrecoverable. Rather than altering the HCAP in isolation, STEC
10 recommended that the commission look to the customer protection rules to ensure consumers are
11 protected from exposure to volatile electricity costs.

12
13 Intersect Power stated it is unwise to lower the HCAP to \$4,500 per MWh. TSPA commented that
14 it will be difficult to raise the offer cap after lowering it. TSPA stated that the offer cap must be
15 high enough for generators to have financial risk for outages and to encourage economic demand
16 response when conditions warrant.

17
18 ***Commission Response***

19 **The commission modifies the language of §25.505(g)(6)(B) to set the HCAP at \$5,000 per**
20 **MWh and \$5,000 per MW per hour.**

21
22 **After the extreme weather events of February 2021, the price cap of \$9,000 per MWh has**
23 **proven to be a liability on market participants and customers of ERCOT. The commission**

1 agrees with HEN, OCSC, OPUC, NextEra, ETEC, and Houston that lowering the HCAP
2 would help ensure prices remain affordable during the upcoming winter season and lessen
3 the financial risk to customers during scarcity events. The commission also agrees with
4 TIEC and TAEBA that lowering the HCAP too much would reduce the incentives for
5 economic demand response.

6
7 Setting the HCAP at \$5,000 per MWh and \$5,000 per MW per hour strikes the best balance
8 of ensuring appropriate generation is brought to the market using market-based
9 mechanisms and incentivizing demand response during scarcity events while limiting
10 extraordinary financial liability for all market participants and customers during such
11 events. Additional changes to the wholesale market design are being considered in Project
12 Number 52373.

13
14 *Coordination Between Modifying the Value of HCAP and ORDC Changes*

15 Nearly every commenter recognized the importance of aligning any changes to the value of the
16 HCAP with any other changes made by the commission to the ERCOT wholesale market design.

17
18 OCSC and OPUC acknowledged that adjusting the HCAP is only one component of the needed
19 comprehensive and holistic review of the ERCOT wholesale market design. TPPA acknowledged
20 that the commission is simultaneously working on changes to ORDC in Project Number 52373,
21 and TPPA encouraged the commission to carefully consider how modifications to the HCAP may
22 affect the ORDC going forward. TEC supported lowering the HCAP with the understanding that
23 this change will be done in concert with other market modifications, including changes to

parameters of the ORDC, new ancillary service products, and other changes that support reliable fuel supply and system resilience. TSPA encouraged the commission to consider any changes to the HCAP in concert with modifications to the ORDC, as these matters are inextricably intertwined.

TCPA and Vistra supported a lower HCAP but stated that the HCAP reduction needs to be implemented in conjunction with the commensurate ORDC reforms needed to maintain existing revenues and provide investment signals to existing and new generation resource owners. TCPA and Vistra stated that the ORDC reforms need to incentivize economic commitment of the desired level of real-time operating reserves so that ERCOT does not have to rely on out-of-market commitment of resources to achieve the desired operating reserves. TCPA stated that this includes, at a minimum, increasing the probability of reserves falling below the minimum contingency level within the ORDC. TCPA recommended that the commission adopt all required ORDC changes prior to the end of 2021 so that such changes can become effective simultaneously with the lowered HCAP value. Vistra recommended modifications that include increasing the minimum contingency level and shifting the ORDC standard deviation parameter. Additionally, Vistra emphasized the importance that any ORDC changes need to be examined in light of the historical levels of offline reserves, which Vistra stated have been at about 33% of the online reserve levels.

STEC argued that reducing the HCAP in isolation would further degrade resource adequacy and reliability. LCRA agreed with STEC, commenting that a reduction in the HCAP should only be implemented in concert with corresponding ORDC changes to ensure the HCAP change will not harm the existing wholesale market. TAEBA averred that reducing the HCAP without

1 simultaneously considering changes to other key components of the wholesale energy market and
2 evaluating the financial impact of all changes together poses significant regulatory risk. Intersect
3 Power specifically mentioned increasing the minimum contingency level and encouraged the
4 commission to make this adjustment regardless of a decision to reduce the HCAP. Austin Energy
5 suggested that the commission pause this rulemaking to allow for adequate time to analyze the
6 impacts from changes to the HCAP. Austin Energy recommended that changes to the value of the
7 HCAP be incorporated into the broader wholesale market design changes in Project Number
8 52373, because the appropriate HCAP level will be determined by other decisions regarding the
9 market design construct.

11 HEN contended that the commission should take a holistic approach to reviewing the HCAP,
12 VOLL, ORDC, Ancillary Service demand curves, and the power balance penalty curve. In the
13 view of HEN, the current ORDC does not send the appropriate price signals, because the
14 parameters have not been adjusted to reflect the recent discussion to procure 6,500 MW of reserves
15 from generation resources. A lower value for VOLL could exacerbate this problem. HEN
16 recommends, in conjunction with a \$4,500 per MWh HCAP, setting VOLL at \$9,000 per MWh,
17 the minimum contingency level at 3,000 MW, and increasing the ORDC standard deviation
18 parameter. NextEra strongly argued that any reduction in the HCAP needs to be offset by changes
19 to the ORDC parameters that will shift the ORDC to the right so that the revised curve causes
20 scarcity pricing to occur at higher reserve margins. NextEra recommended the following ORDC
21 parameters to avoid a reduction in generation revenues: HCAP at \$4,500 per MWh, VOLL at
22 \$15,000 per MWh, minimum contingency level at 2,300 MW, and shifting the ORDC to cause
23 scarcity pricing to occur at higher reserve margins. Jupiter Power posited that a downward change

1 in the HCAP necessitates changes to the ORDC curve, including lifting the minimum contingency
2 level from 2,000 MW.

3
4 *Commission Response*

5 **The commission declines to delay modifying the value of the HCAP. The system-wide offer**
6 **cap begins each calendar year set to the HCAP. Then, if the peaker net margin exceeds three**
7 **times the cost of new entry of a generation plant, as it did during Winter Storm Uri, the**
8 **system-wide offer cap drops from the HCAP to the low system-wide offer cap (LCAP), which**
9 **is substantially lower and serves as an important customer protection against high prices.**
10 **The system-wide offer cap is set to the LCAP for the remainder of 2021, but it will revert to**
11 **the HCAP on January 1, 2022. It is the intent of the commission that the lowered HCAP**
12 **take effect before this date to maintain a degree of protection against high prices. However,**
13 **the commission will consider additional market design changes in a future rulemaking**
14 **project, informed by the requested analysis by Brattle.**

15
16 *Decoupling VOLL from the System-Wide Offer Cap in Effect*

17 Several parties recommended that the commission consider decoupling VOLL from the system-
18 wide offer cap in effect, as is currently required by §25.505(g)(6)(E). While not taking a position
19 in its comments, Austin Energy recommended that the commission make a determinative decision
20 as to whether the VOLL in the ORDC should be coupled to the system-wide offer cap or otherwise
21 decoupled. HEN supported severing the link in §25.505(g)(6)(E) and keeping VOLL at \$9,000
22 per MWh when the HCAP is in effect. Vistra recommended that the commission consider striking
23 the provision in §25.505(g)(6)(E) that equates the value of VOLL to the system-wide offer cap

1 that is in effect. Vistra stated that doing so will give the commission needed flexibility to study
2 other proposals affecting VOLL that are already being discussed in Project Number 52373.
3 NextEra encouraged the commission to evaluate decoupling the HCAP from VOLL to ensure that
4 price-suppressing impacts of a reduced HCAP do not cause dispatchable generation revenues to
5 decrease. Intersect Power stated that as the Texas economy and Texas residents' quality of life is
6 increasingly dependent on electric and digital infrastructure, VOLL should be increasing, not
7 decreasing. If the commission chooses to reduce the HCAP, Intersect Power requested that it
8 decouple the HCAP from VOLL and increase VOLL to \$20,000 per MWh as recommended by
9 the Independent Market Monitor.

11 *Commission Response*

12 **For purposes of this rulemaking, the commission retains the language in §25.505(g)(6)(E)**
13 **that sets VOLL equal to the system-wide offer cap in effect. The commission will review**
14 **alternative values of VOLL in Project Number 52373 and may reconsider this issue in a**
15 **future rulemaking.**

17 *Emergency Pricing Program*

18 Austin Energy, HEN, TIEC, ETEC and Houston all referenced either the emergency pricing
19 program in PURA §39.160 or the need for an additional circuit breaker during extended periods
20 of high prices, as experienced during Winter Storm Uri. Austin Energy encouraged the
21 commission to consider the design of the emergency pricing program, given the dependence of
22 this new pricing mechanism on the value of the HCAP. HEN and TIEC both commented that the
23 commission should implement the emergency pricing programs in accordance with PURA

§39.160 to protect the market from sustained scarcity prices over a long duration and limit the financial risk exposure of extended real-time price excursions during extreme weather events. ETEC argued that implementing the additional measures recently put in place by the legislature in PURA §39.160 will help prevent extreme pricing events, like the one experienced during Winter Storm Uri. Houston pointed out that the lack of an effective circuit breaker during Winter Storm Uri contributed to the impacts felt by customers in Texas as much as the absolute level of the HCAP. Houston recommended that the commission add in a circuit breaker that would cap prices at the LCAP when the HCAP price signal no longer provides any material benefit to real-time resource adequacy or reliability.

Commission Response

The commission makes no changes in response to these comments. The emergency pricing program is beyond the limited scope of this rulemaking. The commission will establish the emergency pricing program as required in PURA §39.160 in a future rulemaking.

Additional Comments

Jupiter Power commented that the commission should consider seasonal ORDC curves and seasonal values for the HCAP and VOLL. It also recommended that the commission evaluate any changes to the HCAP one year from now, with additional reviews on a periodic basis to ensure the wholesale energy market is signaling investment in resources ensuring resource adequacy.

1 Austin Energy recommended that the commission consider expanding the scope of the cost
2 recovery provision in §25.505(g)(7), which allows a resource entity to be reimbursed for operating
3 losses when the LCAP is in effect, to apply to periods when the HCAP is in effect.

4
5 Vistra recommended the approval of a mechanism, such as the Dispatchable Standby Reserve
6 product they recommended in Project 52373, by which additional resources are retained and
7 available to the market as insurance when needed. Vistra argued this new product is
8 complementary to the ORDC improvements and encouraged the commission to work towards
9 concurrent or near-concurrent approval of all of the associated market design elements.

10
11 *Commission Response*

12 **The commission declines to make changes in response to these comments. These**
13 **recommendations are beyond the scope of this rulemaking. However, the commission**
14 **encourages commenters to participate in Project Number 52373, which is evaluating market**
15 **design issues more broadly.**

16
17 These amendments are adopted under §14.002 of the Public Utility Regulatory Act, (PURA),
18 which provides the commission with the authority to make and enforce rules reasonably required
19 in the exercise of its powers and jurisdiction; PURA §39.101, which establishes that customers are
20 entitled to safe, reliable, and reasonably priced electricity and gives the commission the authority
21 to adopt and enforce rules to carry out these provisions; and PURA §39.151, which grants the
22 commission oversight and review authority over independent organizations such as ERCOT,
23 directs the commission to adopt and enforce rules relating to the reliability of the regional electrical

- 1 network and accounting for the production and delivery of electricity among generators and all
- 2 other market participants, and authorizes the commission to delegate to an independent
- 3 organization such as ERCOT responsibilities for establishing or enforcing such rules.
- 4
- 5 Cross reference to statutes: PURA §14.002, §39.101, and §39.151.

1 **§25.505. Reporting Requirements and the Scarcity Pricing Mechanism in the Electricity**
2 **Reliability Council of Texas Power Region.**

3
4 (a) **General.** The purpose of this section is to prescribe reporting requirements for the Electric
5 Reliability Council of Texas (ERCOT) and market participants, and to establish a scarcity
6 pricing mechanism for the ERCOT market.

7
8 (b) **Definitions.** The following terms, when used in this section, have the following meanings,
9 unless the context indicates otherwise:

10 (1) Generation entity -- an entity that owns or controls a generation resource.

11 (2) Load entity -- an entity that owns or controls a load resource. A load resource is a
12 load capable of providing ancillary service to the ERCOT system or energy in the
13 form of demand response and is registered with ERCOT as a load resource.

14 (3) Resource entity -- an entity that is a generation entity or a load entity.

15
16 (c) **Resource adequacy reports.** ERCOT must publish a resource adequacy report by
17 December 31 of each year that projects, for at least the next five years, the capability of
18 existing and planned electric generation resources and load resources to reliably meet the
19 projected system demand in the ERCOT power region. ERCOT may publish other resource
20 adequacy reports or forecasts as it deems appropriate. ERCOT must prescribe requirements
21 for generation entities and transmission service providers (TSPs) to report their plans for
22 adding new facilities, upgrading existing facilities, and mothballing or retiring existing

1 facilities. ERCOT also must prescribe requirements for load entities to report their plans
2 for adding new load resources or retiring existing load resources.

3
4 (d) **Daily assessment of system adequacy.** Each day, ERCOT must publish a report that
5 includes the following information for each hour for the seven days beginning with the day
6 the report is published:

7 (1) System-wide load forecast; and

8 (2) Aggregated information on the availability of resources, by ERCOT load zone,
9 including load resources.

10
11 (e) **Filing of resource and transmission information with ERCOT.** ERCOT must prescribe
12 reporting requirements for resource entities and TSPs for the preparation of the assessment
13 required by subsection (d) of this section. At a minimum, the following information must
14 be reported to ERCOT:

15 (1) TSPs will provide ERCOT with information on planned and existing transmission
16 outages.

17 (2) Generation entities will provide ERCOT with information on planned and existing
18 generation outages.

19 (3) Load entities will provide ERCOT with information on planned and existing
20 availability of load resources, specified by type of ancillary service.

21 (4) Generation entities will provide ERCOT with a complete list of generation resource
22 availability and performance capabilities, including, but not limited to:

23 (A) the net dependable capability of generation resources;

(B) projected output of non-dispatchable resources such as wind turbines, run-of-the-river hydro, and solar power; and

(C) output limitations on generation resources that result from fuel or environmental restrictions.

(5) Load serving entities (LSEs) will provide ERCOT with complete information on load response capabilities that are self-arranged or pursuant to bilateral agreements between LSEs and their customers.

(f) **Publication of resource and load information in ERCOT markets.** To increase the transparency of the ERCOT-administered markets, ERCOT must post the information required in this subsection at a publicly accessible location on its website. In no event will ERCOT disclose competitively sensitive consumption data. The information released must be made available to all market participants.

(1) ERCOT will post the following information in aggregated form, for each settlement interval and for each area where available, two calendar days after the day for which the information is accumulated:

(A) Quantities and prices of offers for energy and each type of ancillary capacity service, in the form of supply curves;

(B) Self-arranged energy and ancillary capacity services, for each type of service;

(C) Actual resource output;

(D) Load and resource output for all entities that dynamically schedule their resources;

1 (E) Actual load; and

2 (F) Energy bid curves, cleared energy bids, and cleared load.

3 (2) ERCOT will post the following information in entity-specific form, for each
4 settlement interval, 60 calendar days after the day for which the information is
5 accumulated, except where inapplicable or otherwise prescribed. Resource-specific
6 offer information must be linked to the name of the resource (or identified as a
7 virtual offer), the name of the entity submitting the information, and the name of
8 the entity controlling the resource. If there are multiple offers for the resource,
9 ERCOT must post the specified information for each offer for the resource,
10 including the name of the entity submitting the offer and the name of the entity
11 controlling the resource. ERCOT will use §25.502(d) of this title (relating to Pricing
12 Safeguards in Markets Operated by the Electric Reliability Council of Texas) to
13 determine the control of a resource and must include this information in its market
14 operations data system.

15 (A) Offer curves (prices and quantities) for each type of ancillary service and
16 for energy in the real time market, except that, for the highest-priced offer
17 selected or dispatched for each interval on an ERCOT-wide basis, ERCOT
18 will post the offer price and the name of the entity submitting the offer three
19 calendar days after the day for which the information is accumulated.

20 (B) If the clearing prices for energy or any ancillary service exceeds a calculated
21 value that is equal to 50 times a natural gas price index selected by ERCOT
22 for each operating day, expressed in dollars per megawatt-hour (MWh) or
23 dollars per megawatt per hour, during any interval, the portion of every

1 market participant's price-quantity offer pairs for balancing energy service
2 and each other ancillary service that is at or above a calculated value that is
3 equal to 50 times a natural gas price index selected by ERCOT for each
4 operating day, expressed in dollars per megawatt-hour (MWh) or dollars
5 per megawatt per hour, for that service and that interval must be posted
6 seven calendar days after the day for which the offer is submitted.

7 (C) Other resource-specific information, as well as self-arranged energy and
8 ancillary capacity services, and actual resource output, for each type of
9 service and for each resource at each settlement point;

10 (D) The load and generation resource output, for each entity that dynamically
11 schedules its resources; and

12 (E) For each hour, transmission flows, voltages, transformer flows, voltages
13 and tap positions (i.e., State Estimator data). Notwithstanding the provisions
14 of this subparagraph and the provisions of subparagraphs (A) through (D)
15 of this paragraph, ERCOT must release relevant State Estimator data earlier
16 than 60 days after the day for which the information is accumulated if, in its
17 sole discretion, it determines the release is necessary to provide a complete
18 and timely explanation and analysis of unexpected market operations and
19 results or system events, including but not limited to pricing anomalies,
20 recurring transmission congestion, and system disturbances. ERCOT's
21 release of data in this event must be limited to intervals associated with the
22 unexpected market or system event as determined by ERCOT. The data
23 released must be made available simultaneously to all market participants

(g) **Scarcity pricing mechanism (SPM).** ERCOT will administer the SPM. The SPM will operate as follows:

(1) The SPM will operate on a calendar year basis.

(2) For each day, the peaking operating cost (POC) will be 10 times the natural gas price index value determined by ERCOT. The POC is calculated in dollars per megawatt-hour (MWh).

(3) For the purpose of this section, the real-time energy price (RTEP) will be measured as an average system-wide price as determined by ERCOT.

(4) Beginning January 1 of each calendar year, the peaker net margin will be calculated as: $\sum((RTEP - POC) * (\text{number of minutes in a settlement interval} / 60 \text{ minutes per hour}))$ for each settlement interval when $RTEP - POC > 0$.

(5) Each day, ERCOT will post at a publicly accessible location on its website the updated value of the peaker net margin, in dollars per megawatt (MW).

(6) **System-wide offer caps.**

(A) The low system-wide offer cap (LCAP) will be set at \$2,000 per MWh and \$2,000 per MW per hour.

(B) The high system-wide offer cap (HCAP) will be \$5,000 per MWh and \$5,000 per MW per hour.

(C) The system-wide offer cap will be set equal to the HCAP at the beginning of each calendar year and maintained at this level until the peaker net margin during a calendar year exceeds a threshold of three times the cost of new entry of new generation plants.

(D) If the peaker net margin exceeds the threshold established in subparagraph (C) of this paragraph during a calendar year, the system-wide offer cap will be set to the LCAP for the remainder of that calendar year. In this event, ERCOT will continue to apply the operating reserve demand curve and the reliability deployment price adder for the remainder of that calendar year. Energy prices, exclusive of congestion prices, will not exceed the LCAP plus \$1 for the remainder of that calendar year.

(E) The value of the lost load will be equal to the value of the system-wide offer cap in effect.

(7) **Reimbursement for operating losses when the LCAP is in Effect.** When the system-wide offer cap is set to the LCAP, ERCOT must reimburse resource entities for any actual marginal costs in excess of the larger of the LCAP or the real-time energy price for the resource. ERCOT must utilize existing settlement processes to the extent possible to verify the resource entity's costs for reimbursement.

(h) **Development and implementation.** ERCOT must use a stakeholder process to develop and implement rules that comply with this section. Nothing in this section prevents the commission from taking actions necessary to protect the public interest, including actions that are otherwise inconsistent with the other provisions in this section.

1 This agency certifies that the adoption has been reviewed by legal counsel and found to be within
2 the agency's legal authority to adopt. It is therefore ordered by the Public Utility Commission of
3 Texas that §25.505, relating to reporting requirements and the scarcity pricing mechanism in the
4 Electric Reliability Council of Texas power region, is hereby adopted with changes to the text as
5 proposed.

6

Signed at Austin, Texas the _____ day of December 2021.

PUBLIC UTILITY COMMISSION OF TEXAS

PETER LAKE, CHAIRMAN

WILL MCADAMS, COMMISSIONER

LORI COBOS, COMMISSIONER

JIMMY GLOTFELTY, COMMISSIONER